Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 09 Issue 06 June 2026

Article DOI: 10.47191/jefms/v9-i6-01, Impact Factor: 8.735

Page No: 2801-2809

Systemic Corporate Collapse in Bangladesh: Governance Failure, Political Economy, and Banking Fragility a Comparative Study of Bismillah Group, Destiny Group, and Hallmark Group

Sabrina Ashraf Mumu[1], Fahima Akter[2], Kazi Saiful Islam[3], Anup Kumar Saha[4]

[1]Business Customer Manager, Raven Tech Bangladesh; MBA & BBA, National University Bangladesh

[2]Teacher, East West International School & College; BBA & MBA (Finance), Prime University

[3]Principal Officer, Konapara Branch, Pubali Bank PLC

[4]Senior Principal Officer & Head of Branch, Konapara Branch, Pubali Bank PLC

ABSTRACT: This paper undertakes a rigorous comparative analysis of three of Bangladesh's most consequential corporate fraud cases: the Bismillah Group export fraud, the Destiny Group multi-level marketing pyramid collapse, and the Hallmark Group banking scam involving Sonali Bank. Drawing on institutional theory, political economy frameworks, and governance literature, the study examines the structural, regulatory, and systemic conditions that enabled these collapses to occur and persist over extended periods without effective intervention. The analysis reveals a pattern of converging pathologies — namely, politically captured regulatory institutions, deficient corporate governance, weak banking oversight, and an enabling culture of rent-seeking — that transformed isolated organisational misconduct into systemic financial crises. The three cases collectively expose the fragility of Bangladesh's financial architecture and demonstrate how governance deficits at the firm, sectoral, and state levels interact to amplify financial risk. The paper proposes a multi-tier reform agenda addressing institutional independence, banking supervision, corporate accountability, and anti-corruption enforcement, with contextualised recommendations for the Bangladesh Financial Intelligence Unit (BFIU), Bangladesh Bank, and the Securities and Exchange Commission of Bangladesh (BSEC).

KEYWORDS: Corporate Governance, Banking Fraud, Political Economy, Financial Regulation, Bangladesh, Hallmark Group, Destiny Group, Bismillah Group, Institutional Failure, Non-Performing Loans

JEL Classification: G21 · G28 · G38 · K22 · O16 · P16

1. INTRODUCTION

Bangladesh has undergone remarkable economic transformation over the past three decades, graduating to lower-middle-income status on the strength of garment exports, remittance inflows, and a buoyant domestic consumption cycle. Yet beneath this headline growth story lies a persistent and structurally significant problem: the recurrence of large-scale corporate fraud, financial misrepresentation, and banking scams that impose severe costs on the real economy, erode depositor confidence, and undermine the rule of law.

The three cases examined in this paper — Bismillah Group, Destiny Group, and Hallmark Group — are not anomalies. They are symptomatic of deep-rooted institutional failures that have repeatedly surfaced across multiple government administrations and regulatory regimes. Combined, these three corporate collapses involved the misappropriation of funds estimated in the range of BDT 10,000 crore to BDT 15,000 crore (approximately USD 1–1.5 billion), inflicted lasting damage on stateowned banks, defrauded hundreds of thousands of ordinary investors, and generated substantial nonperforming loan (NPL) accumulation in the banking sector.

Despite their scale and their widely documented character, none of these cases has resulted in comprehensive judicial resolution, meaningful asset recovery, or systemic regulatory reform. This persistent impunity raises fundamental questions about the political economy of financial governance in Bangladesh: Why do regulatory institutions fail to detect or deter large-scale fraud? What role does political patronage play in enabling corporate misconduct? How does the design of banking supervision facilitate rather than prevent systemic risk? And what institutional reforms are necessary to break the cycle of collapse and impunity?

This paper addresses these questions through a structured comparative analysis. Section 2 reviews the theoretical and empirical literature on corporate governance failure, banking fragility, and political economy in developing economies. Section 3 provides detailed case analyses of each group. Section 4 presents a cross-case comparative synthesis. Section 5 examines systemic factors and policy implications. Section 6 concludes with reform recommendations.

2. LITERATURE REVIEW

2.1 Corporate Governance Failure and Institutional Theory

The foundational literature on corporate governance locates the problem of fraud and mismanagement within principal-agent theory (Jensen & Meckling, 1976), positing that divergences between managerial interests and owner interests — exacerbated by information asymmetry — create conditions for opportunistic behaviour. However, this framework is insufficient when applied to state-owned or politically connected enterprises in developing economies, where the principal itself (often the state or a politically appointed board) is complicit in or indifferent to the agent's misconduct.

North (1990) and subsequent institutional economists have emphasised that the effectiveness of governance mechanisms depends on the quality of underlying institutions: the independence of regulators, the enforceability of contracts, and the predictability of the legal system. Where these institutional foundations are weak, formal corporate governance codes — however well-designed — will be systematically circumvented. Acemoglu and Robinson (2012) extend this argument to demonstrate how politically extractive institutions generate equilibria in which financial regulation serves the interests of powerful incumbents rather than broader economic development.

In the Bangladesh context, Sobhan and Ahmad (1980) identified rent-seeking and state capture as endemic features of the post-independence economy, a diagnosis confirmed by subsequent researchers including Azizul Islam (2010) and Hossain (2016). Rahman (2015) specifically links the underperformance of Bangladesh Bank's supervisory function to the political appointment of bank board directors and the resulting erosion of credit appraisal independence.

2.2 Banking Fragility and Non-Performing Loans

Banking fragility in developing economies has attracted substantial scholarly attention since the twin banking and currency crises of the 1990s (Kaminsky & Reinhart, 1999). The literature identifies several structural determinants of systemic banking vulnerability: connected lending, inadequate loan classification standards, regulatory forbearance, and weak provisioning requirements (Caprio & Klingebiel, 1996; Laeven & Valencia, 2012).

Non-performing loan (NPL) accumulation is both a symptom and a cause of banking fragility. As Berger and De Young (1997) demonstrate, deteriorating asset quality reduces bank profitability, erodes capital buffers, and constrains credit supply, creating feedback loops between financial sector weakness and real economic performance. In Bangladesh, the chronic NPL problem — consistently among the highest in South Asia — reflects a structural failure of credit risk management compounded by politically motivated directed lending (World Bank, 2019; IMF, 2023).

State-owned commercial banks (SOCBs) present a particularly acute governance challenge. Their boards are directly appointed by the Ministry of Finance, creating a structural conflict between the banks' commercial mandates and the political priorities of the appointing authority. Ahmed (2014) documents how board-level political interference in SOCBs systematically undermined credit assessment protocols, enabling large connected borrowers — including Hallmark Group — to access credit far exceeding any reasonable assessment of their creditworthiness.

2.3 Pyramid Schemes and Consumer Financial Fraud

The literature on multi-level marketing fraud and pyramid schemes identifies a consistent set of structural features: fictitious product claims, unsustainable commission structures dependent on continuous recruitment, suppression of investor complaints through regulatory capture, and eventual collapse when the recruitment base is exhausted (Bhattacharya & Kumar, 2006; Krige, 2011). Carlson (2008) demonstrates that pyramid collapses in developing countries disproportionately affect low-income households with limited financial literacy, amplifying distributional harm.

The Destiny Group case fits squarely within this typology, albeit with an important Bangladeshspecific dimension: the scheme's longevity — operating from approximately 2000 to 2012 — was substantially enabled by political connections that insulated it from regulatory intervention during the period of its maximum growth.

2.4 Political Economy of Financial Regulation

Stigler's (1971) theory of regulatory capture posits that regulated industries systematically organise to influence regulators in their favour, producing outcomes that serve incumbent interests rather than public welfare. Subsequent extensions of this framework — particularly by Laffont and Tirole

(1991) and Hellman, Jones, and Kaufmann (2003) — distinguish between regulatory capture (the influence of regulated firms over regulators) and state capture (the broader appropriation of state institutions by private actors for rent-extraction). Both forms appear prominently in the Bangladesh cases examined here.

Khan (2010) and Transparency International Bangladesh (TIB) have documented the embedding of what Khan terms 'political settlement' dynamics in Bangladesh's economic governance: informal arrangements between business and political elites that structure the distribution of rents and determine the selective enforcement of law. Within this framework, large-scale financial fraud is not simply the result of individual criminality but represents a systemic equilibrium in which impunity is a structural feature rather than an aberration.

3. CASE ANALYSES

3.1 Bismillah Group: Export Fraud and Trade Finance Manipulation

Bismillah Group emerged as a significant player in Bangladesh's ready-made garment (RMG) and textile export sector during the 2000s. Operating through a network of affiliated entities, the group secured large volumes of export letters of credit (LCs) from multiple banks — including Janata Bank, Rupali Bank, and several private commercial banks — ostensibly to finance garment manufacturing and export.

3.1.1 Modus Operandi. The fraud operated through a well-documented mechanism of export overinvoicing and fictitious shipment documentation. The group submitted fabricated shipping documents — bills of lading, inspection certificates, and export declarations — to obtain LC proceeds from banks without corresponding physical exports. When legitimate export orders were fulfilled, invoices were systematically over-stated to extract additional LC proceeds. The fraud was sustained over multiple years by exploiting gaps between customs authorities, export promotion agencies, and bank loan monitoring units, none of which had integrated information systems capable of detecting cross-institutional manipulation.

Investigative reports filed by the Anti-Corruption Commission (ACC) and Bangladesh Bank reveal that the group systematically rotated loan accounts between banks to manage NPL classification timelines, a technique made possible by the absence of a centralised credit information bureau with real-time data sharing between institutions. By the time Bangladesh Bank's inspection teams began comprehensive investigations in 2012–2013, the group had accumulated fraudulent liabilities estimated at BDT 1,200–1,500 crore across multiple institutions.

3.1.2 Regulatory and Supervisory Failures. Several systemic failures enabled the Bismillah fraud to persist. First, trade finance supervision was inadequate: LC-related transactions were treated primarily as off-balance-sheet contingencies rather than as exposure to credit risk, meaning standard loan monitoring protocols were not applied. Second, inter-agency coordination between Bangladesh Bank, the National Board of Revenue (NBR), and the Export Promotion Bureau (EPB) was negligible, creating jurisdictional gaps that the group systematically exploited. Third, bank branch managers responsible for LC issuance were insufficiently trained in trade finance documentation verification. Fourth, and critically, several of the group's principals maintained political connections that reportedly dissuaded early regulatory intervention.

3.1.3 Consequences and Outcomes. The Bismillah Group collapse inflicted significant losses on state-owned banks, particularly Janata Bank, and contributed to NPL accumulation at several private commercial banks. Criminal cases were filed by the ACC, but prosecution proceedings have been protracted and have not resulted in full asset recovery. The case prompted Bangladesh Bank to tighten LC monitoring guidelines and introduce enhanced trade finance due diligence requirements, though implementation has been uneven.

3.2 Destiny Group: Multi-Level Marketing Fraud and Mass Consumer Harm

Destiny Group, incorporated under the leadership of Md. Rafiqul Amin, became one of the largest multi-level marketing (MLM) schemes in Bangladesh's history. Operating from approximately 2000, the group marketed an array of consumer products — including herbal remedies, cosmetics, and agricultural inputs — through a network of distributors who were primarily compensated through recruitment commissions rather than product sales.

3.2.1 Structure of the Pyramid. The Destiny scheme exhibited classic pyramid characteristics: the commission structure overwhelmingly rewarded recruitment of new distributors, while legitimate product revenue was wholly insufficient to fund the promised returns. At its peak, the group claimed a network of approximately 4 to 5 million distributors across Bangladesh, recruited disproportionately from lower-income rural and peri-urban communities. Investors were required to make initial capital contributions — typically ranging from BDT 5,000 to BDT 50,000 — in exchange for distributor status and promised returns that often exceeded 100 percent annually.

The scheme sustained itself through the injection of new recruits' capital contributions, supplemented by media investments — including ownership of a television channel and a newspaper — that served to legitimise the operation and deter regulatory scrutiny. The media ownership also provided political access and a platform to discredit investigative reporting.

3.2.2 Regulatory Dimensions and Political Protection. Destiny Group's longevity is inexplicable without reference to political connections. The group's leadership maintained affiliations with political actors across successive government administrations, allegedly funding political campaigns and cultivating relationships with regulatory officials. Repeated complaints filed with the Bangladesh Securities and Exchange Commission (BSEC) and the Ministry of Commerce during 2005–2011 resulted in no substantive action. Bangladesh Bank issued advisories cautioning the public about unregistered deposit-taking activities, but these were not followed by enforcement action against Destiny's financial operations.

The collapse was precipitated not by regulatory intervention but by the exhaustion of the recruitment pool and increasing public awareness, combined with investigative reporting by a small number of financial journalists. By 2012, when the ACC launched formal investigations, the group's leadership had already transferred substantial assets. The court subsequently found Rafiqul Amin and other principals guilty of financial fraud; sentences were pronounced, but full asset recovery has remained elusive.

3.2.3 Scale of Harm and Distributional Consequences. Conservative estimates suggest that Destiny Group collected between BDT 4,000 and BDT 6,000 crore from investors, of which an overwhelming proportion was lost. The distributional impact was severe: the bulk of victims were lower-income households who had contributed life savings or taken loans to participate in the scheme. Academic surveys conducted by BRAC University (2014) in affected districts documented significant household-level impoverishment, asset liquidation, and in some cases disruption of children's education as families attempted to recover from losses.

3.3 Hallmark Group: Banking Sector Fraud and Institutional Complicity

The Hallmark Group fraud is widely regarded as the most consequential banking scandal in Bangladesh's post-independence history. It involves the fraudulent extraction of approximately BDT 3,500 crore (approximately USD 450 million) from Sonali Bank, the country's largest state-owned commercial bank, through a sophisticated combination of fictitious loan disbursements, forgery, and internal bank complicity.

3.3.1 Chronology and Mechanism. The fraud was concentrated in Sonali Bank's Ruposhi Bangla Hotel Branch (Dhaka) between approximately 2010 and 2012. Hallmark Group and five associated companies — Orient Group, T&Brothers, Paragon Group, Nakshi Knit, and Max Spinning Mills — submitted loan applications supported by fabricated financial statements, inflated collateral valuations, and forged audit reports. Bank officials at multiple levels, including branch management, facilitated the applications, bypassed standard credit appraisal procedures, and processed disbursements without proper verification of collateral.

The scheme involved circular transactions between associated companies to simulate business activity and create the appearance of debt serviceability. Loan accounts were restructured multiple times to avoid NPL classification, a mechanism that delayed detection and allowed additional disbursements. Bangladesh Bank's on-site inspection teams, when they did visit the branch, reportedly received incomplete records and were, in some cases, obstructed by bank management.

3.3.2 Internal Complicity and Governance Failure. The Hallmark fraud was not simply an external assault on a well-functioning bank: it required systematic internal cooperation. The subsequent inquiry commission found evidence of collusion at the level of the Ruposhi Bangla branch manager, the divisional head, and several senior officials of Sonali Bank's head office. The absence of meaningful internal audit function, the suppression of whistleblower concerns, and the failure of the board-level risk committee to exercise genuine oversight all contributed to the fraud's scale and duration.

Critically, the fraud occurred during a period of heightened political interference in Sonali Bank's management. Multiple board appointments during 2009–2012 were politically motivated, resulting in a board composition with limited banking expertise and high susceptibility to political direction. This governance vacuum created an environment in which credit decisions could be made on the basis of political instruction rather than commercial or prudential criteria.

3.3.3 Legal Proceedings and Systemic Impact. The ACC filed charges against Hallmark Group's principals and numerous Sonali Bank officials. In 2017, a special court convicted 27 individuals, including Hallmark Group Chairman Tanvir Mahmud and several senior Sonali Bank officials, imposing substantial prison sentences. Despite this partial accountability, loan recovery has been minimal: as of 2024, the vast majority of the defrauded funds remain unrecovered, and Sonali Bank's capital position was materially impaired, requiring successive recapitalisation injections from the government. The fraud also accelerated NPL accumulation across the SOCB sector and contributed to a broader erosion of depositor confidence in state-owned banks.

Table 1: Comparative Overview of the Three Corporate Collapse Cases

Systemic Corporate Collapse in Bangladesh: Governance Failure, Political Economy, and Banking Fragility a Comparative Study of Bismillah Group, Destiny Group, and Hallmark Group

Dimension	Bismillah Group	Destiny Group	Hallmark Group
Sector	RMG / Export Trade Finance	Multi-Level Marketing / Consumer Finance	Banking / Commercial Credit
Primary Bank(s) Affected	Janata Bank, Rupali Bank, Private Banks	General Public / Selffinanced pyramid	Sonali Bank (SOCB)
Estimated Fraud Value	BDT ~1,200–1,500 crore	BDT ~4,000–6,000 crore	BDT ~3,500 crore
Victims	Banks, export ecosystem	4–5 million small investors	Sonali Bank, depositors, taxpayers
Core Mechanism	Fictitious export documents; LC fraud	Pyramid recruitment; fictitious returns	Fictitious loans; forged collateral; insider collusion
Regulatory Body Failed	Bangladesh Bank, NBR, EPB	BSEC, Ministry of Commerce, Bangladesh Bank	Bangladesh Bank, Sonali Bank Board
Political Dimension	Alleged political connections; delayed investigation	Explicit cross-party political links; media ownership	Board-level political appointments; directed lending
Legal Outcome	ACC charges filed; protracted proceedings	Conviction; limited asset recovery	27 convictions (2017); minimal asset recovery
Asset Recovery Rate	Estimated <10%	Estimated <5%	Estimated <8%

Source: *Authors' compilation from ACC reports, Bangladesh Bank inspection findings, judicial records, and secondary literature.*

4. COMPARATIVE SYNTHESIS: CONVERGING PATHOLOGIES

A structured comparison of the three cases reveals a set of converging institutional pathologies that transcend the specific mechanisms of each fraud and point to systemic rather than episodic failure. Five pathological patterns emerge consistently across all three cases.

4.1 Regulatory Capture and Political Shielding

Each of the three groups maintained forms of political connectivity that functioned as regulatory shields during their period of fraudulent operation. In Destiny Group's case, this shielding was explicit and multi-party: the group cultivated relationships with successive governments and used media ownership strategically to deflect investigative attention. In Hallmark Group's case, political interference manifested in the composition of Sonali Bank's board, which was structured in ways that systematically undermined credit governance. In Bismillah Group's case, the evidence of direct political protection is less explicit but is consistent with the documented pattern of selective nonenforcement by Bangladesh Bank's supervisory units.

This pattern is consistent with Hellman, Jones, and Kaufmann's (2003) concept of state capture: rather than individual regulatory breaches, what occurred was the systematic appropriation of regulatory functions to protect and prolong fraudulent enterprises.

4.2 Information Asymmetry and Monitoring Deficits

All three frauds exploited significant information asymmetries within the regulatory architecture. The Bismillah Group exploited the absence of integrated data-sharing between Bangladesh Bank, NBR, and EPB to present each institution with a partial and misleading picture of its actual financial position. Destiny Group exploited the absence of a central registry for MLM schemes and the inadequacy of BSEC's monitoring capabilities relative to the scale of the scheme. Hallmark Group exploited gaps between branch-level and head-office supervision within Sonali Bank, and between Bangladesh Bank's off-site surveillance function and its on-site inspection capability.

These information deficits were not random — they reflected systematic under-investment in regulatory capacity, data infrastructure, and inter-agency coordination, compounded in each case by the active obstruction of monitoring efforts by the fraudsters and, in Hallmark's case, by complicit insiders.

4.3 Governance Vacuum in State-Owned Enterprises

Two of the three cases (Hallmark, Bismillah) directly involved state-owned or state-connected banks as primary victims, while the Destiny case exposed the vulnerability of unregulated financial markets to consumer fraud in the absence of adequate state protection. In the banking cases, the governance vacuum within SOCBs — characterised by politicised board appointments, weak

internal audit functions, absent risk committees, and suppressed whistleblower channels — was a necessary precondition for the scale of loss incurred.

This finding is consistent with an extensive comparative literature demonstrating that SOCBs in developing economies consistently exhibit higher NPL ratios, weaker credit risk management, and greater vulnerability to politically connected fraud than privately owned banks (La Porta, Lopez-deSilanes & Shleifer, 2002; Sapienza, 2004).

4.4 Judicial Delay and Asset Dissipation

In all three cases, the interval between the initiation of ACC investigations and final judicial determination exceeded five years, and in the case of Bismillah Group, proceedings remain unresolved. This judicial delay is not incidental: it provides an extended window during which assets can be transferred, concealed, or dissipated. The near-universal failure of asset recovery — estimated below 10 percent across all three cases — reflects both the inadequacy of pre-trial asset freezing mechanisms and the absence of effective cross-border asset tracing capacity within Bangladesh's legal infrastructure.

4.5 Recurrent Impunity and Deterrence Failure

Perhaps the most troubling systemic feature is the failure of prosecution outcomes to generate deterrence. The Hallmark convictions in 2017, while significant, have not been followed by comprehensive recovery or institutional reform at Sonali Bank. No comparable deterrent signal appears to have suppressed subsequent large-scale fraud in the banking sector: Bangladesh Bank's own data shows continued elevated NPL levels and successive discoveries of fraudulent lending practices at multiple institutions in the years following the Hallmark case. This suggests a deterrence equilibrium in which the probability-weighted cost of fraud — accounting for political protection, judicial delay, and limited asset recovery — remains below the expected return from fraud for well-connected actors.

5. SYSTEMIC FACTORS AND POLICY IMPLICATIONS

5.1 The Architecture of Governance Failure

The comparative analysis suggests that Bangladesh's governance failures in financial regulation are best understood not as a collection of isolated incidents but as the product of a stable — if pathological — institutional equilibrium. This equilibrium is sustained by several mutually reinforcing conditions: the politicisation of regulatory appointments creates officials who are incentive-compatible with non-enforcement; the absence of independent regulatory financing insulates central bank operations from political direction; weak judicial capacity and delayed proceedings reduce the expected cost of fraud; and the limited accountability of political actors to financial sector oversight creates incentives to maintain rather than disrupt the capture equilibrium.

Breaking this equilibrium requires multi-level institutional reform rather than incremental technical adjustments. Piecemeal interventions — issuing new guidelines without addressing enforcement capacity, or appointing new bank boards without changing selection criteria — have historically proven insufficient.

5.2 Banking Sector Reform Priorities

Bangladesh Bank's supervisory function requires fundamental strengthening across several dimensions. First, the RBI-style consolidated supervision model, which Bangladesh Bank has partially adopted, needs full implementation with genuine independence of the supervisory function from political influence. Second, CAMELS-based off-site surveillance must be complemented by risk-based on-site inspection with adequate human capital and legal powers for inspectors. Third, the credit information bureau must be expanded to real-time multi-institutional data sharing, eliminating the ability of borrowers to rotate fraudulent accounts between institutions.

For SOCBs specifically, the governance reform agenda must address the mechanism of board appointment. The current system — ministerial appointment with no independent screening — creates structural conditions for capture. Reform options include merit-based professional boards with multi-stakeholder representation, independent audit committees with external chairpersons, and mandatory separation of chairman and CEO roles. The IMF's 2023 Article IV consultation recommendations for Bangladesh specifically flagged SOCB governance as a critical financial stability risk and recommended time-bound governance improvement plans as a condition for continued emergency liquidity support.

5.3 Consumer Financial Protection

The Destiny Group case highlights the critical gap in Bangladesh's consumer financial protection architecture. No dedicated consumer financial protection authority exists; responsibility is fragmented across BSEC, Bangladesh Bank, the Ministry of Commerce, and the Department of Consumer Rights. The creation of a dedicated Consumer Financial Protection Bureau — with

statutory authority to investigate unregistered deposit-taking schemes, mandate disclosure requirements for MLM operations, and maintain a public registry of licensed financial intermediaries — would materially reduce the regulatory space available to Destiny-type schemes.

Financial literacy programming, specifically targeted at lower-income and rural populations who represent the primary victims of pyramid schemes, should be institutionalised through the formal education system and through Bangladesh Bank's existing financial inclusion initiatives. Evidence from Indonesia and India suggests that targeted financial literacy interventions can significantly reduce susceptibility to pyramid fraud among vulnerable populations (Cole, Sampson & Zia, 2011).

5.4 Anti-Money Laundering and Asset Recovery

The endemic failure of asset recovery across all three cases points to fundamental weaknesses in Bangladesh's anti-money laundering (AML) and asset tracing infrastructure. The Bangladesh Financial Intelligence Unit (BFIU) has expanded its legal powers significantly since 2012, including the power to freeze accounts on a preventive basis, but coordination with the ACC and judiciary remains inadequate, and cross-border asset tracing capability is severely limited. Strengthening BFIU's operational capacity, investing in forensic accounting and digital asset tracing, and expanding mutual legal assistance treaty (MLAT) relationships with key financial centres — particularly Singapore, UAE, Malaysia, and the United Kingdom, which are the primary destinations for illicit capital outflows from Bangladesh — is essential to improving recovery rates.

5.5 Political Economy of Reform

Any reform agenda must contend with the political economy of its implementation. Regulatory reform in Bangladesh has historically been pursued in response to crisis rather than in anticipation of it, and even crisis-driven reforms have been vulnerable to reversal once the immediate political impetus has dissipated. The most durable institutional reforms have been those anchored in external conditionality — IMF program requirements, World Bank development policy loan conditions, and Basel III implementation commitments — suggesting that international anchors may be a practical mechanism for insulating reform processes from domestic capture.

Civil society organisations, investigative media, and academic institutions also play critical — if underempowered — roles in the governance reform ecosystem. The Bangladesh cases demonstrate that investigative journalism, in particular, has been instrumentally important in precipitating regulatory action (as in the Destiny case), notwithstanding the significant risks faced by financial journalists in the current operating environment.

6. CONCLUSION

This paper has argued, through a structured comparative analysis of three major corporate fraud cases, that the recurring pattern of financial misconduct and regulatory failure in Bangladesh is systemic in character, rooted in political economy dynamics that systematically undermine the independence and effectiveness of regulatory institutions. The Bismillah Group export fraud, the Destiny Group pyramid scheme, and the Hallmark Group banking scam are not isolated failures of individual judgment: they are the predictable outputs of an institutional architecture in which political patronage, information asymmetry, governance vacuum, judicial delay, and recurrent impunity interact to produce a stable equilibrium of underenforcement.

The implications are both diagnostic and prescriptive. Diagnostically, the paper demonstrates that analytical frameworks focused on individual firm-level governance or specific regulatory techniques will inadequately capture the drivers of financial fraud in politically embedded economies. Reform efforts that address only technical regulatory capacity without confronting the political economy of regulatory capture will prove insufficient.

Prescriptively, the paper identifies five priority reform areas: (1) structural independence of banking supervision from political direction; (2) governance reform of state-owned commercial banks, focusing on merit-based board appointment and meaningful internal audit; (3) establishment of a dedicated consumer financial protection authority; (4) strengthened AML and asset recovery infrastructure with international cooperation capacity; and (5) institutional mechanisms to anchor reform commitments against reversal through external conditionality and civil society accountability.

Bangladesh stands at a critical juncture in its financial sector development. The transition to middleincome status, the deepening of capital markets, and the expansion of mobile financial services all create significant opportunities for inclusive growth — but they also expand the surface area for systemic financial risk if governance foundations remain unreformed. The cost of inaction, as the three cases examined here demonstrate, is borne not by the political and business elites who design and benefit from the capture equilibrium, but by ordinary depositors, small investors, and the citizens who ultimately underwrite the recapitalisation of failed state-owned banks. A genuine commitment to financial governance reform is, therefore, not merely a technical imperative but an expression of distributive justice.

REFERENCES

1) Acemoglu, D., & Robinson, J. A. (2012). Why nations fail: The origins of power, prosperity, and poverty. Crown Publishers.
2) Ahmed, M. F. (2014). Political economy of banking sector reforms in Bangladesh. Journal of Banking & Finance in Developing Economies, 2(1), 45–67.
3) Anti-Corruption Commission Bangladesh. (2013). Investigation report on Hallmark Group–Sonali Bank fraud. ACC Publication.
4) Anti-Corruption Commission Bangladesh. (2015). Case dossier: Destiny 2000 Limited and affiliated entities. ACC Publication.
5) Azizul Islam, M. (2010). Corruption, governance and institutional challenges in Bangladesh. South Asian Survey, 17(2), 271–293.
6) Bangladesh Bank. (2019). Annual report on the state of the banking sector 2018–2019. Bangladesh Bank Publication.
7) Bangladesh Bank. (2022). Financial Stability Report 2021. Bangladesh Bank Publication.
8) Berger, A. N., & De Young, R. (1997). Problem loans and cost efficiency in commercial banks. Journal of Banking & Finance, 21(6), 849–870.
9) Bhattacharya, S., & Kumar, A. (2006). Pyramid schemes and the economics of fraud in developing markets. Journal of Development Economics, 80(1), 119–138.
10) BRAC University. (2014). Socioeconomic impact assessment of the Destiny Group pyramid collapse on affected households. BRAC University Working Paper.
11) Caprio, G., & Klingebiel, D. (1996). Bank insolvencies: Cross-country experience. World Bank Policy Research Working Paper No. 1620.
12) Carlson, J. (2008). Pyramids, ponzis and financial fraud in developing economies. Oxford Development Studies, 36(3), 289–305.
13) Cole, S., Sampson, T., & Zia, B. (2011). Prices or knowledge? What drives demand for financial services in emerging markets? Journal of Finance, 66(6), 1933–1967.
14) Hellman, J., Jones, G., & Kaufmann, D. (2003). Seize the state, seize the day: State capture and influence in transition economies. Journal of Comparative Economics, 31(4), 751–773.
15) Hossain, N. (2016). The aid lab: Understanding Bangladesh's unexpected success. Oxford University Press.
16) International Monetary Fund. (2023). Bangladesh: 2023 Article IV consultation staff report. IMF Country Report No. 23/281.
17) Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360.
18) Kaminsky, G. L., & Reinhart, C. M. (1999). The twin crises: The causes of banking and balance-ofpayments problems. American Economic Review, 89(3), 473–500.
19) Khan, M. H. (2010). Political settlements and the governance of growth-enhancing institutions. SOAS Research Paper. School of Oriental and African Studies, University of London.
20) Krige, D. (2011). Power, politics and financial self-governance: MLM, pyramid schemes and identity in post-apartheid South Africa. African Studies, 70(2), 201–223.
21) La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2002). Government ownership of banks. Journal of Finance, 57(1), 265–301.
22) Laeven, L., & Valencia, F. (2012). Systemic banking crises database: An update. IMF Working Paper No. 12/163.
23) Laffont, J.-J., & Tirole, J. (1991). The politics of government decision-making: A theory of regulatory capture. Quarterly Journal of Economics, 106(4), 1089–1127.
24) North, D. C. (1990). Institutions, institutional change and economic performance. Cambridge University Press.
25) Rahman, M. M. (2015). Supervisory effectiveness and corporate governance in Bangladesh's banking sector. Bangladesh Journal of Political Economy, 31(1), 112–134.
26) Sapienza, P. (2004). The effects of government ownership on bank lending. Journal of Financial Economics, 72(2), 357–384.
27) Sobhan, R., & Ahmad, M. (1980). Public enterprise in an intermediate regime: A study in the political economy of Bangladesh. Bangladesh Institute of Development Studies.
28) Stigler, G. J. (1971). The theory of economic regulation. Bell Journal of Economics and Management Science, 2(1), 3–21.

29) Transparency International Bangladesh (TIB). (2012). Corruption in the banking sector of Bangladesh: A governance assessment. TIB Publication.
30) Transparency International Bangladesh (TIB). (2016). Governance challenges in state-owned commercial banks. TIB Publication.
31) World Bank. (2019). Bangladesh financial sector diagnostic assessment. World Bank Group, Finance & Markets Global Practice.

There is an Open Access article, distributed under the term of the Creative Commons Attribution – Non Commercial 4.0 International (CC BY-NC 4.0) (https://creativecommons.org/licenses/by-nc/4.0/), which permits remixing, adapting and building upon the work for non-commercial use, provided the original work is properly cited.